GOVERNMENT OF INDIA
PETROLEUM AND NATURAL GAS
LOK SABHA

UNSTARRED QUESTION NO:474
ANSWERED ON:28.02.2008
HIKE IN THE OIL PRICES
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Will the Minister of PETROLEUM AND NATURAL GAS be pleased to state:

(a) whether the World Bank estimated the average price of crude oil per barrel to rise from 71.2 dollars in 2007 to 85 dollars in 2008;

(b) if so, the details thereof;

(c) whether the Government is aware that this record rise in prices affects the prices of food and other non-fuel commodities including metal prices;

(d) if so, the details thereof; and

(e) the steps being taken by the Government to control adverse impact of rise of oil prices on other products?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF PETROLEUM AND NATURAL GAS (SHRI DINSHA PATEL)

(a)&(b): The World Bank in its annual report titled "Global Economic Prospects 2008" has estimated the average price of crude oil to rise from $ 71.2 per barrel in 2007 to $ 84.1 per barrel in 2008. The simple average of Dubai, Brent and West Texas Intermediate crude oils has been considered. The highlights of the report as regards to crude oil demand and prices are as follows:-

- Higher oil prices have reduced growth in global oil demand, particularly in high- income OECD countries. In non-OECD economies, the demand for oil has grown by just over one million barrel a day since 2005, significantly below the level in 2004.

- As demand eased and non-OPEC supply increased, OPEC countries reduced their output to prevent a fall in prices.

- While the emerging supply-demand factors will keep the oil markets somehow balanced over 2007-09, prices are expected to remain above $75 a barrel for the coming two years.

The average price of Indian Basket crude from Jan'08 to Feb'08 (upto 22.02.08) has been $ 90.19 per barrel.

(c)to(e): As passing on the entire impact of the steep increase in the oil prices to the consumers would have resulted in inflationary impact, the Government has taken certain measures to ensure that the burden was shared by all the stakeholders, namely:-

Government − Issue of Oil Bonds; Oil companies − Upstream / Refinery Discounts; and Consumers − Minimal Price Increase

Accordingly, the Government has issued Oil Bonds and Upstream Oil Companies have contributed by offering discount on crude oil and petroleum products, to partially compensate the under- recoveries of OMCs as per the details given below:

Rs. in Crores

Year	Oil Bonds issued by Government	Contribution by Upstream Oil Companies
2005-06	11500	14000
2006-07	24121	20507

Apr-Dec`07 11257 15873#

Total 46878 50380

For Apr-Sep'07 #Apr-Dec'07 (Provisional)

In this context, a marginal increase in petrol and diesel prices by Rs. 2/litre and Re. 1/litre respectively was made with effect from 15.2.2008 which is actually in the nature of a restoration of retail prices to the price level operating before February, 2007.

Despite the steep increases in international oil prices, the Government has not increased the prices of PDS Kerosene during the last six years. The price of Domestic LPG has remained unchanged during the last three years.

In addition to the above, to reduce the burden on the consumer, Central Taxes on sensitive petroleum products have been consciously rationalized. The Central Government levies no taxes − customs or excise − on PDS Kerosene and domestic LPG. The customs duty on petrol and diesel has been reduced from 10% to 7.5% effective 14.6.2006 and the ad-valorem component of excise duty reduced from 8% to 6% effective 1.3.2007. Considering its widespread use for cooking purposes, LPG (domestic) has been placed under the 'declared goods' category, thereby limiting State Governments levy of sales taxes to 4%.

The above measures have been adopted to keep the inflation rate within reasonable limits. The Government is closely monitoring the international oil prices and will continue to protect the interests of consumers.